

**REPORT OF THE AUDIT OF THE  
CUMBERLAND COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2007**



**CRIT LUALLEN  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE CUMBERLAND COUNTY SHERIFF**

**For The Year Ended  
December 31, 2007**

The Auditor of Public Accounts has completed the Cumberland County Sheriff's audit for the year ended December 31, 2007. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

Excess fees increased by \$23 from the prior year, resulting in excess fees of \$50 as of December 31, 2007. Revenues increased by \$124,583 from the prior year and expenditures increased by \$124,560.

#### **Report Comments:**

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements
- All Invoices Should Be Paid Within Thirty Working Days In Compliance With KRS 65.140

#### **Deposits:**

The Sheriff's deposits as of December 5, 2007 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured    \$34,608

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tim Hicks, Cumberland County Judge/Executive  
The Honorable James Pruitt, Cumberland County Sheriff  
Members of the Cumberland County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Cumberland County, Kentucky, for the year ended December 31, 2007. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2007, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 4, 2008 on our consideration of the Cumberland County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Tim Hicks, Cumberland County Judge/Executive  
The Honorable James Pruitt, Cumberland County Sheriff  
Members of the Cumberland County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements
- All Invoices Should Be Paid Within Thirty Working Days In Compliance With KRS 65.140

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Cumberland County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen  
Auditor of Public Accounts

August 4, 2008



CUMBERLAND COUNTY  
JAMES PRUITT, SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2007

Revenues

Federal - Appalachia High Intensity Drug Trafficking Area (HIDTA)	\$	49,743	
State - Kentucky Law Enforcement Foundation Program Fund			17,096
State Fees For Services:			
Finance and Administration Cabinet	\$	21,042	
Sheriff Security Service		<u>6,962</u>	28,004
Circuit Court Clerk:			
Fines and Fees Collected		3,710	
Court Ordered Payments		<u>254</u>	3,964
Fiscal Court			81,380
County Clerk - Delinquent Taxes			581
Commission On Taxes Collected			68,769
Fees Collected For Services:			
Auto Inspections		1,750	
Accident and Police Reports		14	
Serving Papers		11,160	
Carrying Concealed Deadly Weapon Permits		<u>786</u>	13,710
Other:			
Transporting Prisoners		32,027	
Tax Penalty Fees		10,189	
Tax Advertising Fees		1,300	
Miscellaneous		<u>150</u>	43,666
Interest Earned			1,430
Borrowed Money:			
State Advancement		26,400	
Bank Note Proceeds (Note 4)		<u>33,835</u>	<u>60,235</u>
Total Revenues			<u>368,578</u>

The accompanying notes are an integral part of this financial statement.

CUMBERLAND COUNTY  
 JAMES PRUITT, SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2007  
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 121,938
Part-Time Salaries	4,800
Clerk's Gross Salaries	24,280
Overtime	15,127

Employee Benefits-

Employer's Share Retirement	2,225
Employer's Share HIDTA Retirement	9,736

Contracted Services-

Advertising	83
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Materials and Supplies-

Office Materials and Supplies	2,605
Uniforms	1,367

Auto Expense-

Gasoline	22,527
Vehicle Maintenance and Repairs	7,682

Other Charges-

Postage	2,577
Bond	112
Carrying Concealed Deadly Weapon Permits	530
Miscellaneous	133
Computer Services	70
Sequestered Jurors	122
HIDTA Expenses	768
Case/Investigation Expenses	125
Training Expenses	100
Camera, Film Expense	114
Transporting Prisoners	186

The accompanying notes are an integral part of this financial statement.

CUMBERLAND COUNTY  
 JAMES PRUITT, SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Year Ended December 31, 2007  
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Capital Outlay-		
Vehicles	<u>\$ 35,218</u>	\$ 252,425
Debt Service:		
State Advancement	26,400	
Bank Note Payments (Note 4)	16,978	
Bank Note Interest and Fees	<u>3,301</u>	<u>46,679</u>
Total Expenditures		<u>299,104</u>
Net Revenues		69,474
Less: Statutory Maximum	66,038	
Less: Training Incentive Benefit	<u>3,386</u>	<u>69,424</u>
Excess Fees Due County for 2007		50
Payment to Fiscal Court - February 12, 2008		<u>50</u>
Balance Due Fiscal Court at Completion of Audit		<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

CUMBERLAND COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

CUMBERLAND COUNTY  
 NOTES TO FINANCIAL STATEMENT  
 December 31, 2007  
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Cumberland County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Cumberland County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 5, 2007, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured      \$34,608

CUMBERLAND COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2007  
(Continued)

Note 4. Notes Payable

In January 2006, the Office of the Sheriff entered into a note in the amount of \$6,361. The purpose of the note was for the purchase of a 2003 Chevrolet Impala. During 2006 only interest in the amount of \$451 was paid. In January 2007, the note was renewed with a principal balance due of \$6,361. During 2007, a payment of \$6,892 was made for principal and interest, leaving a balance of \$0 due at December 31, 2007.

In January 2007, the Office of the Sheriff entered into an unsecured note in the amount of \$5,850. The purpose of the note was to meet payroll obligations. During 2007, a payment in the amount of \$6,388 was made for principal, interest and fees, leaving a balance of \$0 due at December 31, 2007.

In February 2007, the Office of the Sheriff entered into a note in the amount of \$27,985. The purpose of the note was for the purchase of a 2007 Ford Crown Victoria. During 2007 a payment in the amount of \$7,000 was made for principal, interest and fees, leaving a principal balance due of \$23,217 at December 31, 2007. In February 2008, the note was renewed in the name of the Cumberland County Fiscal Court, with the county assuming the debt obligation.

Note 5. Drug Eradication Account

The Sheriff's office maintained a Drug Eradication Account during 2007. Receipts for this account are from court ordered payments and monies from federally forfeited property related to drug cases. These funds are reserved for law enforcement involving drug eradication and are not available for fee account purposes. As of December 31, 2006 the Drug Eradication Account had a balance of \$519. During 2007 the account had receipts of \$26,328 and disbursements of \$15,149. As of December 31, 2007, the Drug Eradication Account had a balance of \$11,698.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tim Hicks, Cumberland County Judge/Executive  
The Honorable James Pruitt, Cumberland County Sheriff  
Members of the Cumberland County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Cumberland County Sheriff for the year ended December 31, 2007, and have issued our report thereon dated August 4, 2008. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Cumberland County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts And Disbursements



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Cumberland County Sheriff's financial statement for the year ended December 31, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- All Invoices Should Be Paid Within Thirty Working Days In Compliance With KRS 65.140

This report is intended solely for the information and use of management, the Cumberland County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

August 4, 2008

## COMMENTS AND RECOMMENDATIONS



CUMBERLAND COUNTY  
JAMES PRUITT, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2007

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

The Sheriff's Office Lacks Adequate Segregation Of Duties Over Receipts and Disbursements

During our review of internal controls over receipts and disbursements, we noted that the bookkeeper performs the majority of the receipt and disbursement functions. We noted that the bookkeeper maintains the receipt and disbursement ledgers, collects receipts, prepares the daily checkout sheets, makes the bank deposits, prepares the monthly bank reconciliations and remits all payments. We also noted that disbursements have only one signature.

Adequate segregation of duties would prevent the same person from having a significant role in the processing, recording and reporting of receipts, as well as signing, recording and reporting of disbursements. Compensating controls are controls that limit the severity of a control deficiency by mitigating the effects. However, they do not eliminate the control deficiency. The Sheriff could limit the severity of the lack of segregation of duties over receipts and disbursements by implementing compensating controls.

*Sheriff's Response:* None.

STATE LAWS AND REGULATIONS:

All Invoices Should Be Paid Within Thirty Working Days In Compliance With KRS 65.140

During testing of expenditures, we noted that two expenditures tested were not paid within thirty working days, as required by KRS 65.140. As a result of the late payments, \$22.32 in late fees were charged to the Sheriff's office. KRS 65.140 states that "unless the purchaser and vendor contract, all bills for goods and services shall be paid within thirty (30) working days of receipt of vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor." The statute further states that "an interest penalty of one percent (1%) of any amount approved and unpaid shall be added to the amount approved each month or fraction thereof after the thirty (30) working days which follow receipt of vendor invoice by the purchaser." We recommend the Sheriff pay all invoices within the required thirty (30) working days.

*Sheriff's Response:* None.

